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JAPAN'S FOREIGN AID POLICY: AN ANNUAL UPDATE

Summary

During his visit to the United States last January, Prime Minister Yasuhiro Nakasone underscored his government's determination to double Japan's official development assistance (ODA) during the 1981-85 period. By June, however, Tokyo had indicated that attainment of that goal was in jeopardy. In view of the consistent and dramatic increases in aid-giving that Japan has made during the past decade, what has interfered with the pace of the plan? Or, more fundamentally, is Japan's foreign aid policy evolving in yet another direction?

U.S. and Japanese aid officials maintain that several factors beyond Tokyo's control have circumscribed its ODA program, specifically the misalignment of the yen-dollar rate and the reduction in U.S. contributions to multilateral agencies to which Japan's are pegged. Too, there is the Japanese budget deficit. In an attempt to ward off criticism from other major donors that Tokyo is shirking its global responsibilities, the Nakasone government has indicated that it might double one component of ODA -- bilateral assistance. Japanese officials also indicated that this bilateral aid would continue to go in part to countries of strategic importance to the Western alliance.

Comprehensive Security and the ODA Doubling Plan

To understand the significance of Tokyo's pledge to double its foreign economic assistance within five years, it is important to consider how the ODA program has developed during the past three decades. Aid policymakers generally identify several distinct phases as the development assistance program evolved from one that openly

linked ODA to trade and market development to the current policy that appears to take humanitarian and security considerations into account. The stages follow a logical progression: war reparations, from the mid-1950s until 1965; tied aid to promote exports, particularly to Southeast Asia, from the mid-1950s through the early 1970s; an ambitious effort to improve ODA performance through the untying of assistance; and from the late 1970s to the present, the emergence of a policy that emphasizes meeting basic human needs in developing countries and countries located in regions of strategic importance to the Western alliance.[1]

Observers suggest that Japan's aid program grew directly out of its role as a former colonial power, which explains why a consistently high percentage of assistance has gone to the countries of Southeast Asia. As Table 2 indicates, this geographical bias is still apparent, with approximately 70 percent of ODA targeted to this region. Reparations negotiations between Japan and the Southeast Asian nations provided $500 million to the Philippines and $400 million to Indonesia over a 20-year period, $20 million to Burma for ten years, and special compensation to Thailand, which, owing to its alliance with Japan during the war, incurred financial losses through the issuance of yen notes by Japanese banks in that country.[2] Amity treaties and tied-aid packages were signed in lieu of reparations with Cambodia and Laos. South Vietnam received $39 million in tied aid over a five-year period. Singapore received $17 million in assistance, and debt relief agreements totalling $8.3 million were eventually concluded with Malaysia. In sum, Japan's expenditures for reparations totalled a relatively modest $1 billion over about 20 years, or less than 2 percent per year of the national budget -- expenditures which yielded significant economic benefits since the aid provided was by and large tied to procurement in Japan.[3] During this period, however, Japan also viewed itself as a developing country and was quite open about its intent to cultivate export markets as well as secure access to raw materials.

Throughout the 1960s when the Japanese economy grew by approximately 10 percent a year, export credits and private aid still constituted an estimated 65 percent of Japan's total aid flows.[4] ODA as a percentage of GNP remained constant, loan terms were harder than average among the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), and technical assistance and human resource aid were minimal. At the United Nations Conference on Trade and Development (UNCTAD) in 1965, Tokyo was heavily criticized by both recipients and donors alike for this heavily tied assistance.

In part as a result of this international criticism, Japan entered a new phase in aid-giving. With Japan's GNP moving up to the number-two slot in the industrialized world, Tokyo sought to become an "international donor among donors" by improving the quality and regional distribution of its aid. In the early 1970s, Japan emerged as a leading proponent of untied aid and by the latter part of the decade, led the other major donors in this effort. Shaken by the first oil embargo, Tokyo also recognized the importance of dispersing aid to countries outside its traditional sphere, principally to the resource-rich Persian Gulf.

The most recent stage in the evolution of Japan's aid policy began in 1977, when it embarked on its first ODA-doubling plan. Between 1977 and 1980 the government exceeded its goal, bringing aid to a level of $3.3 billion, and substantially increased the grant and technical assistance elements. Grants, in particular, rose to 77.7 percent in 1979, which, although far below the DAC average that year of 90.7 percent, was nevertheless a significant increase when compared to 1977's 70.2 percent. The percentage of ODA to GNP rose to 0.32 percent in 1980, but was still below the DAC

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average of 0.37 percent. Tokyo also continued to disperse aid outside of Asia. In 1973, for example, 88 percent of ODA funds went to Asia, while only 2.6 percent went to Africa and 1 percent to the Middle East. By 1977, this distribution had shifted; Asia received 60 percent, Africa 17.1 percent, and the Middle East 12.4 percent. In 1980, approximately 70 percent of development aid went to Asia, while the rest was divided fairly equally among the countries of Africa, Latin America and the Middle East.

One factor in this decision was U.S. pressure for more cooperation in development at a time when the Carter administration was pushing for a considerable increase in the U.S. aid program. Probably more significant, however, was a growing body of opinion that felt that Japan should make a concerted effort to carve out an appropriate world leadership role. Since Tokyo, for domestic reasons, is unwilling and unable to expand its military capacity in any way other than in a self-defense context, the development area is a more politically palatable alternative. Then too, the Japanese felt that their economic success story would serve as a role model for other developing nations. Through the first doubling plan, Japan emphasized its obligations as a leader in foreign economic assistance. And indeed, in the past five years, no other nation has equalled the percentage of ODA increases of the Japanese government.[5]

Concurrently, Japan also began to espouse the concept of comprehensive security. The idea first emerged in 1980 in a report commissioned by former Prime Minister Ohira that recommended a comprehensive approach to national security based on long-term strategies for defense, energy and food problems. Most importantly, it said, Japan's defense policy should consist of a mix of military and non-military measures. In early 1981 it was announced that a second consecutive ODA-doubling plan, spanning the 1981-85 period, would become the "pillar" of measures for comprehensive security, reflecting Japan's willingness to play a greater role as a member of the western world. "Economic cooperation according to [Japan's] economic capacity" was advanced as a substitute for a more equitable sharing of the military defense burden -- much to the consternation of the United States which still insists that defense improvements proceed simultaneously.

William L. Brooks and Robert M. Orr Jr., in their study on Japan's foreign aid policy, contend that formulation of the comprehensive security policy and the paramount importance attached to aid was no doubt accelerated by Vietnam's invasion of Cambodia in 1979, oil shortages related to the Iranian revolution, and Moscow's occupation of Afghanistan.[6] Japanese policymakers reasoned that prudent expansion of ODA to strategically important countries -- particularly those which serve as important sources of raw materials — would promote stability and discourage internal or external discord.

Budget Projections for Fiscal 1984

Although only two years have passed since Prime Minister Suzuki declared the aid-doubling target which, if attained, would probably make Japan the second-largest aid donor in absolute terms, it has already run into difficulties. Japanese officials have indicated recently in the press that the goal to increase ODA to approximately $21.4 million by 1985 is probably unattainable due to the weakening of the yen, budget deficits and declines in multilateral aid contributions.

As early as last year, however, Tokyo suspected it might have difficulties making good on its pledge. In 1981, Japan disbursed $3.17 billion in assistance, 4.1 percent below 1980's all-time-high of $3.3 billion. Last year's $3.02-billion record was no better, falling 4.7 percent from the previous year. The original plan envisaged an average 8.7-percent annual growth, which would require increases of over 13 percent in each of the remaining three years. Indeed, earlier this year, the Foreign Ministry requested that fiscal 1984

ODA be expanded by 13.6 percent, contending that the doubling plan could still be realized if the fiscal 1984 and 1985 aid budgets increased by at least 13.6 percent. The government's fiscal austerity policy poses a formidable obstacle, however. In order to reduce the huge budget deficit, line items have generally been held to zero growth. For political reasons the defense and foreign-aid categories have been exempted in response to U.S. pressure that Japan assume more of the defense burden and fulfill its economic assistance commitment. The Nakasone cabinet's recent decision to set an 11.4-percent ceiling on increases in the aid budget for fiscal 1984, while significant in light of the cutbacks domestic social welfare programs suffered, nevertheless strikes a virtually insurmountable blow to the doubling plan.

The tight-fisted Ministry of Finance is not solely responsible, however. Aid authorities point out that the currency misalignment has placed additional strains on an already difficult task. Despite the priority attached to the aid budget, ODA disbursements in 1982 decreased because of the yen's 11.5-percent depreciation in value. When the doubling commitment was made in 1981, the yen was exchanged at 220 to the dollar. During the past two years, however, the yen has plummeted to as low as 270 to the dollar, which has served to cancel out the increases in the yen-based aid budget.

The doubling plan has also been upset by continuing disagreements among major donors -- chiefly the United States -- about funding levels for multilateral institutions such as the United Nations and the World Bank. Since the 1960s, Japan had maintained a record of contributions to multilateral agencies that was somewhat better than the DAC average. (In 1977, at the onset of its first doubling plan, Japan's multilateral assistance as a percentage of ODA was 36.9 percent compared with a DAC average of 31.4 percent.) As Table 1 indicates, however, Japan's multilateral contributions have been steadily decreasing, and in 1982, constituted approximately 22 percent of total ODA.

This decline is at least partly due to the U.S. decision to reduce or delay its contributions to the multilateral development banks.[7] Since the major donors provide funds according to a formula which fixes their shares relative to the contributions of the United States, Washington's decision determines the amount of money available for developing countries. Tokyo's multilateral assistance funds are deposited in a separate bond account and there is a statutory requirement that any funds withdrawn be specifically pegged to U.S. multilateral contributions. The government has chosen not to challenge this statute due in part to a prevailing sentiment in the donor community that no one should be placed in the position of having to pick up the American slack in multilateral giving.

Is Japan's Foreign Aid Policy Entering a New Phase?

Tokyo's inability to meet the 1985 target as it was originally conceived has prompted speculation that the drive to expand ODA has cooled off. It is generally acknowledged that aid-giving in the foreseeable future will probably expand at a much slower pace. In an attempt to ward off criticism that Japan is shirking its responsibilities as a major economic power, Tokyo now appears to be redefining its aid goals. Since the multilateral dimension is generally felt to be beyond its control, Tokyo has aired two alternative approaches: to double by 1985 the bilateral component of the ODA budget; or to extend the target year to 1987. All the recent evidence suggests that the Japanese appear to be leaning toward the first alternative.

Even if the Finance Ministry had not been as hard on the pursestrings, there is some doubt as to how effectively the Japanese aid bureaucracy could administer a greatly expanded program. According to Professor Haruhiro Fukui of the University of

California, an authority on bureaucratic politics in Japan, the aid bureaucracy is ill-equipped to administer fresh infusions of funds or to redirect it in a timely manner. "To increase the official component," he explained, "means increasing certain types of aid, which in turn means that certain 'pieces of the agencies' pie' are increased at the expense of others. This very difficult and delicate balancing of interests," he continued, "makes it difficult, if not impossible, for the stated goal to be obtained." Brooks and Orr make much the same point that the policy and jurisdictional rivalry in Japan's aid bureaucracy is particularly troublesome. The two implementing bodies, the Overseas Economic Cooperation Fund (OECF) and the Japan International Cooperation Agency receive policy direction from agencies of the government with different mandates. "It should not be surprising if policy [is] not always coordinated under these circumstances," they observe.

Although the momentum has slowed, has the philosophy underlying aid changed? According to Susan Pharr, an official at the Agency for International Development (AID) who is responsible for U.S.-Japan aid cooperation, Japan is still very committed to becoming a leader in development assistance by broadening its aid outside of Asia, particularly to countries bordering conflict situations. Although the Asian region will continue to be an important focus of Tokyo's aid effort -- and the new commitments to South Korea and China are likely to raise this regional concentration to almost 80 percent -- nevertheless there has been a concerted effort to expand assistance to countries of strategic importance to East-West relations, including Egypt, Pakistan and Sudan (see Table 3). Japanese officials reportedly have assured their American counterparts that this trend would continue.

Also indicative of its commitment is Tokyo's interest in collaboration with the United States. During a time of heightened tensions over the bilateral trade imbalance and defense spending, both sides have welcomed this refreshingly non-contentious subject. Aside from improving political ties in the developing world, Washington views collaboration with Tokyo as a means of extending its scarce financial resources to increase the net benefit of its development assistance rather than concentrating on a few limited projects. Tokyo seeks the positive political payoffs, and also looks to joint cooperation as a means of acquiring some U.S. aid expertise. Officials note that Japan's projects are hampered by inadequate evaluation and appraisal procedures, and the government hopes to take advantage of AID's field staff to insure successful project implementation.

To date, the two countries have collaborated on two projects: a dry-land agricultural center in northeastern Thailand, and a smaller project in Tonga in the South Pacific. Aid authorities maintain that subsequent development efforts will probably proceed on parallel lines, rather than being jointly financed. For example, the United States might finance a research center for dry-land agriculture, while Japan would finance a factory to process the food grown as a result of the research. In any event, participants at the June talks agreed that staff level meetings should be initiated and continued on a regular basis to generate other projects and to explore other kinds of aid cooperation.

In terms of the quality of Japan's aid, however, the United States and other DAC members feel there is still room for improvement. The grant element of ODA still hovers around 75 percent, so the terms of its loans are still somewhat tighter than those of other donors. (Several years ago, the OECD set a goal for the grant element at 86 percent; 100 percent would be an outright grant with no restrictions.) Japan's ratio of grants to loans also compares rather unfavorably with the other major donors. In 1980, for example, Japan was the only donor to commit more aid in the form of loans than grants. (During that year, grants constituted less than 50 percent of total ODA.) If and when

Tokyo's fiscal policy relaxes, it is possible that foreign assistance terms will also become more generous. Because of the tight budget, the government has been unable to make any major increases in the grant area and has had to rely more on funds from the Fiscal Investment Loan and Program. In order to keep the OECF (which administers the loans) solvent, the government has therefore had to raise interest rates, which has in turn kept loan terms comparatively hard.

All in all, however, in view of the recent performance of other major donors, such as the United States, Japan is frequently referred to in OECD publications and other multilateral aid fora as a "bright spot" during a time when many donors are reneging on their commitments. The fact that Tokyo probably will not attain its aid-doubling plan as originally conceived does not mean that it no longer recognizes the importance of improving its program.

Footnotes

[1]William L. Brooks and Robert M. Orr Jr., "Japan's Foreign Economic Assistance." Unpublished manuscript.

[2]Ibid.

[3]Ibid.

[4]Ibid.

[5]Ibid.

[6]Ibid.

[7]Ibid.

The author acknowledges the assistance of Dr. Susan Pharr of AID in providing background material for this report. The views expressed are those of the writer. For further information, contact Barbara Wanner.

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Table 1

Total Net Flow of Financial Resources from Japan to Developing Countries and Multilateral Agencies, 1980-82

(in millions of dollars)

Type of Transaction	1980	1981	1982
I. Official Development Assistance (ODA)	$3,303.7	$3,170.9	$3,023.3
Increase Over Previous Year	25.3%	-4.1%	-4.7%
As Percentage of GNP	0.32%	0.28%	0.2%
A. Bilateral Assistance	1,960.8	2,260.4	2,367.3
1. Grants:	652.6	810.4	805.2
Grant Assistance	374.8	432.0	412.3
Technical Assistance	277.8	378.4	392.9
2. Development Lending and Capital	1,308.2	1,450.0	1,562.1
B. Grants, Capital Subscription and Loans to Multilateral Agencies	1,342.9	910.5	656.0
II. Other Official Flows (OOF)	1,478.0	3,022.6	2,790.7
A. Export Credits (over 1 year)	822.9	1,410.4	849.5
B. Direct Investment Finances and Others	767.0	1,489.5	1,971.9
C. Transactions with Multilateral Agencies at Market Terms	-111.9	122.7	30.7
III. Private Flows (PF)	1,957.8	6,010.6	2,928.4
A. Direct Investment	906.0	2,426.1	363.5
B. Export Credits (over 1 year)	73.7	712.3	-1,762.4
C. Other Bilateral Securities and Claims	660.3	1,272.7	2,798.8
D. Multilateral Private Flows	317.8	1,599.5	1,528.5
IV. Grants by Voluntary Agencies	26.4	27.3	25.9
Total Official and Private Flows (I + II + III + IV)	6,765.9	12,231.3	8,768.3
Increase Over Previous Year	-10.5%	80.8%	-28.3%
As Percentage of GNP	0.65%	1.08%	0.83%
For Reference			
Export Credits (total)	896.6	2,122.7	-912.9
Direct Investments and Others (total)	1,673.0	3,915.6	2,335.4

Notes: 1. Net disbursement basis.
2. As the figures in the table are rounded off, they do not necessarily add up to the totals.

Source: Ministry of Foreign Affairs, July 15, 1983

Table 2

Geographical Distribution of Japan's ODA (Net Disbursements), 1980-82

(in millions of dollars)

Year	Total	Asia	Middle East	Africa	Latin America	Europe	Oceania	Unallocable
1980	$1,961 (100.0%)	$1,383 (70.5%)	$204 (10.4%)	$223 (11.4%)	$118 (6.0%)	-$1 (-0.1%)	$12 (0.6%)	$23 (1.2%)
1981	2,260 (100.0%)	1,605 (71.0%)	190 (8.4%)	210 (9.3%)	176 (7.8%)	-2 (-0.1%	19 (0.9%)	62 (2.7%)
1982	2,367 (100.9%)	1,624 (68.6%)	194 (8.2%)	268 (11.3%)	184 (7.8%)	-3 (-0.1%)	23 (1.0%)	77 (3.3%)

Source: Ministry of Foreign Affairs

Table 3

Major Recipients of Japan's ODA, 1978-82

(in millions of dollars)

1978		1979		1980		1981		1982	
Country	Amount	Country	Amount	Country	Amount	Country	Amount	Country	Amount
Indonesia	$227.59	Indonesia	$226.90	Indonesia	$350.03	Indonesia	$299.80	China (PRC)	$368.79
Bangladesh	119.62	Bangladesh	206.33	Bangladesh	215.14	Korea	295.55	Indonesia	294.55
Egypt	118.75	Thailand	179.86	Thailand	189.55	Thailand	214.47	Bangladesh	215.79
Burma	104.02	Burma	178.04	Burma	152.46	Philippines	210.05	Thailand	170.32
Thailand	103.75	Pakistan	168.34	Egypt	122.97	Bangladesh	144.98	Philippines	136.38

Source: Ministry of Foreign Affairs

Table 4

Allocation of Japan's ODA by Income Groups (Net Disbursements), 1981-82

(in millions of dollars)

Recipient Country	1981	1982	Percent Change 1981/82	Percent Distribution 1982
Least Developed Countries (LLDCs)	$ 289.3	$ 406.8	17.2%	12.8%
Low-Income Countries[1] (excluding LLDCs)	786.2	1,209.8	51.1	34.8
Middle-Income Countries[2]	720.5	561.9	23.7	31.9
Newly Industrializing Countries (NICs)	351.8	74.4	3.1	15.6
OPEC Countries[3]	15.2	25.5	1.1	0.7
Unallocable	97.4	88.9	3.8	4.3
Total	2,260.4	2,367.3	100.0	100.0

Notes: 1. Defined by the OECD Secretariat as countries with an average 1980 per capita GNP of not more than $600.
2. Defined by the OECD Secretariat as countries with an average 1980 per capita GNP exceeding $600, excluding NICs and OPEC countries other than Nigeria.
3. Excluding Indonesia and Nigeria.

Source: Ministry of Foreign Affairs

Table 5

ODA of Major Donor Countries, 1982

(in millions of dollars)

Rank	Country	Amount	Percent of Total DAC ODA 1982	Percent Distribution 1981
1	United States	$8,302	29.7%	22.6%
2	France	3,991	14.3	15.8
3	West Germany	3,163	11.3	12.5
4	Japan	3,023	10.8	12.5
5	United Kingdom	1,794	6.4	8.6
6	Netherlands	1,473	5.3	5.9
DAC Total		27,919	100.0	100.0

Source: Ministry of Foreign Affairs

Table 6

Sectoral Distribution of Japan's ODA* (Commitments), 1981-82

(in millions of dollars)

	1981	1982	Percent Change 1981/82	Percent Distribution 1982	1982
Contributions Allocable by Sector of Destination	$2,179.53	$2,576.93	18.2%	72.04%	80.72%
Planning and Public Administration	3.73	6.02	61.4	0.12	0.19
Development of Public Utilities	1,113.13	1,628.35	46.3	36.79	51.01
Agriculture	359.55	304.85	-15.2	11.88	9.55
Industry, Mining and Construction	398.61	409.40	2.7	13.18	12.82
Travel, Banking, Tourism and Services	17.52	27.27	55.7	0.58	0.85
Education	65.46	52.80	-19.3	2.16	1.65
Health	168.34	113.71	-32.5	5.56	3.56
Social Infrastructure and Welfare	7.20	18.75	160.4	0.24	0.59
Multisector	45.99	15.78	-65.7	1.52	0.49
Contributions Not Allocable by Sector	845.80	615.35	-27.3	27.96	19.28
Total	3,025.33	3,192.28	5.5	100.00	100.00

*Excluding technical assistance.

Source: Ministry of Foreign Affairs